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Improving the financial situation of the United Nations

Report of the Secretary-General

Addendum

I. Introduction

1. The present report updates information on the financial situation of the United Nations provided in the report of the Secretary-General of 8 October 1997 (A/52/444). It also provides information on the financial situation of the Organization as at 31 December 1997 and cash-flow projections for 1998.

II. Review of the financial situation at the end of 1997

A. Overview

2. Three key indicators characterize the overall picture of the United Nations financial situation at the end of 1997 compared with 1996, available cash, unpaid assessments and amounts due to Member States for troops and contingent-owned equipment. Available cash at year-end 1997 totalled $669 million, slightly lower than cash at year-end 1996, which totalled $677 million. Unpaid assessments were slightly lower at the end of 1997, totalling $2,048 million, compared with $2,144 million at the end of 1996. Amounts due to Member States for troops and contingent-owned equipment totalled $884 million, slightly worse than a year earlier, when amounts owed totalled $868 million. Of the three key indicators, only one shows any improvement.

B. Available cash

3. The aggregate end-of-year available cash balances, for the regular budget and peacekeeping accounts combined, were relatively stable over the last three years. Combined cash totalled $728 million in 1995, $677 million in 1996 and $669 million in 1997.

4. There was, however, a steady downward trend in peacekeeping cash, from $923 million in 1995 to $874 million in 1996 and $791 million in 1997. Peacekeeping cash levels were expected to be even lower as at 31 December 1997, reflecting the decreasing level of peacekeeping assessments and consequent reduced cash inflows. Peacekeeping cash balances at the end of 1997 were favourably affected, however, by lower than anticipated expenditures for several missions and by obligations recorded but not disbursed for several other missions in liquidation. These favourable factors added some $80 million to peacekeeping cash balances as at 31 December 1997. It should be noted, however, that these favourable factors are temporary and peacekeeping cash will be adversely affected when they turn around.

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5. On the other hand, regular budget cash, including reserves, has been in a deficit position at each year-end since 1995, when the negative balance was $195 million, virtually the same as in 1996, when it was a negative $197 million. The smaller negative balance of $122 million in 1997 reflects two factors, underspending of $54 million for the budget for the biennium 1996-1997 and unexpected contributions received in December 1997, principally from the United States of America and Ukraine. The effect of the underspending is a one-time factor, however, which will not be present in 1998. Without these special factors, the regular budget cash deficit at the end of 1997 would once more have been about $195 million.

6. By way of analysis, the pattern of payment of regular budget assessments differs substantially between that of the United States and that of all other Member States. In the case of the United States, payment amounts have ranged as high as 130 per cent of current year assessments in 1990 to below 50 per cent in 1995. Over the period from 1980 to 1997, 90 per cent of all regular budget assessments have been paid, leaving 10 per cent unpaid. By contrast, the payment amounts of other Member States have not differed as markedly from the amount assessed either on a year-to-year basis or cumulatively. Ninety-nine per cent of all assessments has been paid, only 1 per cent has not been paid. The gap between assessment levels and payment levels, 10 per cent in the case of the United States and 1 per cent in the case of all other Member States, has been the cause of the regular budget cash account moving into a deficit position. Until Member States, and principally the United States, close this gap and reduce their arrears, a similar regular budget cash deficit will recur at the end of each year.

C. Unpaid assessments

7. At the end of 1997, unpaid assessments, for both the regular budget and peacekeeping, stood at $2.0 billion, down from $2.1 billion at year-end 1996 and down from $2.3 billion at the end of 1995. Two factors can contribute to a reduction in the level of unpaid assessments. Firstly, the level of new assessments can moderate, which happened in 1996-1997.

8. Regular budget appropriations were $2,603 million in 1996-1997, down from $2,632 million in 1994-1995, and are $2,532 million in 1998-1999. The aggregate decrease over the six-year period is $100 million, but some of this decrease is due to the adoption of an accounting change, called net budgeting, which was used in the preparation of the budget for the biennium 1998-1999.

9. Net budgeting includes in United Nations budget appropriations only that portion of the cost of joint bodies, such as the Joint Inspection Unit, which relates to the United Nations and not to other organizations of the system, such as United Nations Development Programme or the World Health Organization. If the accounting change had been applied in 1994-1995 and 1996-1997, budget appropriations in 1998-1999 would have been $60 million lower compared with 1994-1995, thus reducing assessment amounts.

10. A second factor that can moderate the level of unpaid assessments is payment of arrears. With aggregate regular budget and peacekeeping assessments in 1997 down from a level in 1994 and 1995 well above $4 billion, it was hoped that payments of arrears would increase substantially because of lesser current demands on Member States. This did not happen in 1996 or in 1997 and a significant pay-down of prior year assessments did not occur.

11. While there have been improvements in both regular budget and peacekeeping collections, the overall rate of improvement is disappointing. At year-end 1994, assessment levels were high and a relatively low level remained unpaid at year-end. In 1997, assessment levels were much lower than 1994, but unpaid amounts were above those of 1994. A higher and higher percentage of assessments are in arrears and remain uncollected.

12. As to the regular budget, there has been some improvement. The number of Member States paying their regular budget assessment in full continues to climb. At the end of 1997, 100 Member States had paid their assessments in full. Only 75 Member States were in that position in 1994. There has also been a substantial decrease in the number of Member States owing more than their 1997 assessments at the end of the year, down from 75 in 1994 to 50 in 1997. However, the number of Member States making no regular budget payment in 1997 moved back up to 17 from last year's low of 12.

13. There continues to be a reduction in the absolute level of unpaid regular budget assessments, down to $473 million as at 31 December 1997, a reduction of $91 Million compared with the end of 1995. Unpaid assessments due from the United States were down $41 million, while amounts due from all other Member States were down $50 million.

14. The remaining level of unpaid regular budget assessments as at 31 December 1997 is highly concentrated on one Member. The United States owed 79 per cent of all outstanding regular budget assessments as at 31 December 1997. The United States, together with Brazil and Ukraine,

accounted for 86 per cent of all regular budget unpaid assessments at the end of 1997.

15. As to peacekeeping assessments, the amount unpaid as at 31 December 1997 aggregated $1,574 million, a decrease of $150 million since 1995. That decrease, however, included an increase of $124 million for the United States and a decrease of $269 million for the Russian Federation. It should be recalled that President Boris Yeltsin announced the intention of his Government to pay off all United Nations arrears. The pay-off period was identified subsequently as seven years and the Russian Federation has been more than matching its stated intention.

D. Debt to Member States for troops and contingent-owned equipment

16. The United Nations as an Organization has no capital and it has no cash reserves. When the amount of cash on hand is low, as was the case on 31 December 1997, and when the amount of unpaid assessments is large, as was also the case on 31 December 1997, the Organization has no alternative but to slow down the payment of its obligations. In certain cases, the process of slowdown becomes one of delay.

17. The level of unpaid peacekeeping obligations to Member States who provide troops and equipment for United Nations missions is the principal obligation of the Organization and that obligation is now in a state of very protracted delay. On 31 December 1997, the debt to Member States for troops and equipment aggregated $884 million, down from the high of $1,155 million in 1995 but up from the 1996 level of $838 million.

18. Since the end of 1996, it has been the intention of the Secretary-General to compensate Member States each year for approximately the amount of obligation incurred by the Organization that year for troops and equipment. In other words, the Secretary-General will try not to allow the debt already owed to Member States to rise. Furthermore, it is his intention to pay down the aggregate debt arrearage when Member States make substantial payments of their peacekeeping arrears.

19. On 1 January 1997, debt to Member States for troops and equipment aggregated $838 million. New obligations in 1997 aggregating $270 million were entered into by the Organization and payments of $262 million were made in 1997 in amounts approximately equal to those new obligations. In addition, the Russian Federation remitted payments of $65 million against assessments in arrears, which was paid to Member States to reduce the Organization's past due obligations for troops and contingent-owned equipment.

20. However, negotiations with those Member States which have provided contingent-owned equipment to missions required an upward revaluation of $100 million for that debt. As a result, the debt to Member States on 31 December 1997 stood at $884 million. There have been similar revaluations in the past and it is quite possible that additional revaluations will occur in the future, following upon protracted negotiations with the Member States that are involved.

21. Of the aggregate debt to Member States, most of the $884 million owed is in connection with the use of contingent-owned equipment. Troop debt on 31 December 1997 was down to $140 million. Over 70 Member States are each owed amounts for the use of troops and contingent-owned equipment. France is owed the largest amount, $127 million, and five other Member States are owed in excess of $40 million – Belgium, India, the Netherlands, Pakistan, and the United Kingdom of Great Britain and Northern Ireland.

III. Prospects for 1998

A. Available cash

22. At the end of 1998, combined cash, regular budget and peacekeeping taken together, is projected to drop further – to $577 million from $669 million – at the end of 1997.

23. As regards the regular budget component of combined cash, that amount at the end of 1998 is once more projected to be in a deficit position of $184 million. The projection shows no basic change in the recurring pattern of a significant deficit that has affected the Organization during the last four months or so of every year since 1995. In fact, 1998 shows a return to the deficit levels experienced in 1995 and 1996.

24. Peacekeeping cash at the end of 1998 is also projected to continue the pattern of decrease in recent years. It must be stressed, however, that cash-flow projections are particularly difficult to make for peacekeeping. The number of variables involved makes such a financial exercise extremely complicated. The level of peacekeeping activity, the timing and amount of assessments, the timing and amount of payment of obligations, the timing and amount of the application of credits – all of these factors, and more, have an effect on the final outcome. The process of

projecting is much more volatile than is the case with regular budget cash. At present, however, peacekeeping cash is estimated to amount to $761 million at the end of 1998.

25. Three key assumptions underlie this peacekeeping cash projection. Firstly, it is estimated that the level of peacekeeping assessments will drop to $800 million, which is a further reduction from the level of prior years. New obligations for troops and equipment are projected at about $170 million, also a reduction from prior years and, lastly, it is expected that the Secretary-General will continue in 1998 his stated intent to pay Member States in 1998 an amount approximately equal to that new obligation. The projections do not include any estimates in connection with possible payments of arrears by Member States. Therefore no reductions by year end 1998 of the aggregate debt to Member States for troops and contingent-owned equipment is projected.

26. As concerns the combined cash position, it is now projected that the end of 1998 will see a further increase in the percentage of peacekeeping cash that must be cross-borrowed by the regular budget to offset the cash deficit in that account. At 31 December 1998 combined cash is forecast to be $577 million, the smallest amount in four years. Twenty-five per cent of peacekeeping cash will need to be cross-borrowed to cover the deficit in regular budget cash, the largest percentage in four years. More and more is being borrowed from a smaller and smaller source.

B. Unpaid assessments

27. 1998 regular budget assessments totalling $1.1 billion were issued to Member States in December. As shown in the attached annex, by 31 January 1997, 29 Member States had paid in full their regular budget assessments while only 24 Member States had paid in full by January 1998. By the end of February, the number of Member States making full payment of the current year's assessment grew to 39, the same as in 1997. It is noted with disappointment, however, that some Member States that were on the "payments received" list in 1997 were not there in 1998. As a consequence, the normal surge of cash inflows traditionally expected at the beginning of each year has not materialized for 1998. In January 1997, assessment payments aggregated$405 million. In January 1998, such payments were only $279 million. February on a comparable basis was worse: $151 million in assessed payments was received in 1997, only $38 million in 1998. Of those 15 Member States which made the largest assessment payment in the first two months of 1997, only 8 have made any payments in 1998. Total receipts for the two months are down from $556 million to $317 million – a 43 per cent drop.

28. The United Nations has been informed by the United States to expect payments of $152 million in several instalments beginning in March, but also to be received in April, July and September. Those payments relate to those authorized by the Congress as at 1 October 1997 and related to assessments due the United Nations on 31 January 1997. This extended delay pushes further down the line the expectations of payments. The protracted payment period is a major contributor to the tight cash situation of the Organization. The Secretary-General is most appreciative of the efforts made by those Member States which have paid in full and on time and asks all other Member States to make prompt payments of amounts now past due.

C. Debt to Member States for troops and contingent-owned equipment

29. Amounts owed for troops and contingent-owned equipment at the end of 1998 are projected to increase to $890 million from $884 million at year-end 1997. It is expected that peacekeeping activity will be at the level of $800 million in 1998 and that troop and contingent-owned equipment obligations will be about $170 million during 1998. The troop and contingent-owned equipment component of peacekeeping operations is tending to decrease with the increase in the police component required by missions, which must be paid currently. Hence, some degree of financial flexibility that had been present when troops and contingent-owned equipment was a more prominent component of costs will be lost in 1998.

30. The Organization has received no information from Member States that would indicate the prospect of any payment of arrears. Thus, no additional arrearage payments have been factored into the peacekeeping cash-flow projections and no payments to Member States in 1998 beyond the amount approximately equal to the obligation incurred by the Organization for troops and equipment in 1998 are anticipated. Any further pay-down in the year-end level of obligation will need to await arrearage payments.

IV. Conclusion

31. The Organization's cash position is weak, and getting weaker, with unpaid assessments decreasing slowly. Debt to Member States has become resistant to change. As a result the need to cross-borrow from peacekeeping funds to cover regular budget deficits persists, as the level of funds decline.

Annex

Status of payments by Member States of 1997 and 1998 regular budget assessments

A. Member States whose regular budget contributions for 1997 and 1998 were received in full by 31 January

1997			*1998*		
Australia	Ireland	Norway	Australia	India	New Zealand
Austria	Italy	Republic of Korea	Austria	Ireland	Norway
Bahrain	Kuwait	Singapore	Canada	Kuwait	Singapore
Canada	Liechtenstein	Slovakia	Denmark	Liechtenstein	Slovakia
Denmark	Luxembourg	Slovenia	Finland	Malta	South Africa
Egypt	Malaysia	South Africa	France	Marshall Islands	Sri Lanka
Fiji	Malta	Sri Lanka	Hungary	Mozambique	Sweden
Finland	Micronesia (Federated States of)	Sweden	Iceland	Netherlands	Trinidad and Tobago
Iceland	Netherlands	Thailand			
India	New Zealand				
		29			**24**

B. Member States whose regular budget contributions for 1997 and 1998 were received in full in February

1997			*1998*	
Brunei Darussalam	Namibia	Belize	Luxembourg	Russian Federation
Colombia	Palau	Cyprus	Malaysia	Saint Kitts and Nevis
Cyprus	Poland	Czech Republic	Monaco	Tunisia
France	Samoa	Ethiopia	Nepal	Turkmenistan
Monaco	Spain	Lao People's Democratic Republic	Pakistan	Viet Nam
		10		**15**
		39		**39**